

Ms. Myria A. Polydorou, Vice President, Finance  
Health Care Corporation  
Post Office Box 5419  
Spartanburg, South Carolina 29304

Re: AC# 3-CAL-J7 – Calhoun Convalescent Center, Inc.

Dear Ms. Polydorou:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**CALHOUN CONVALESCENT CENTER, INC.**

**ST. MATTHEWS, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-CAL-J7**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1998	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1998 THROUGH NOVEMBER 30, 1998	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS DECEMBER 1, 1998 THROUGH SEPTEMBER 30, 1999	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1997	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 24, 2000

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Calhoun Convalescent Center, Inc., for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Calhoun Convalescent Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Calhoun Convalescent Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
March 24, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**CALHOUN CONVALESCENT CENTER, INC.**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-CAL-J7

	<u>10/01/98-</u> <u>11/30/98</u>	<u>12/01/98-</u> <u>09/30/99</u>
Interim reimbursement rate (1)	\$81.91	\$82.66
Adjusted reimbursement rate	<u>81.37</u>	<u>82.12</u>
Decrease in reimbursement rate	\$ <u>.54</u>	\$ <u>.54</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

**CALHOUN CONVALESCENT CENTER, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-CAL-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.70	\$43.39	
Dietary		10.15	9.93	
Laundry/Housekeeping/Maint.		<u>5.94</u>	<u>8.11</u>	
Subtotal	\$ <u>4.30</u>	53.79	61.43	\$53.79
Administration & Med. Rec.	\$ <u>3.64</u>	<u>7.26</u>	<u>10.90</u>	<u>7.26</u>
Subtotal		61.05	\$ <u>72.33</u>	61.05
<u>Costs Not Subject to Standards:</u>				
Utilities		2.14		2.14
Special Services		-		-
Medical Supplies & Oxygen		3.98		3.98
Taxes and Insurance		1.19		1.19
Legal Fees		<u>.11</u>		<u>.11</u>
<b>TOTAL</b>		\$ <u>68.47</u>		68.47
Inflation Factor (3.60%)				2.46
Cost of Capital				8.44
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.40
Cost Incentive				4.30
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.95)
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>81.37</u>

**CALHOUN CONVALESCENT CENTER, INC.**

Computation of Adjusted Reimbursement Rate

For the Contract Periods December 1, 1998 Through September 30, 1999  
AC# 3-CAL-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.70	\$43.39	
Dietary		10.15	9.93	
Laundry/Housekeeping/Maint.		<u>5.94</u>	<u>8.11</u>	
Subtotal	\$ <u>4.30</u>	53.79	61.43	\$53.79
Administration & Med. Rec.	\$ <u>3.64</u>	<u>7.26</u>	<u>10.90</u>	<u>7.26</u>
Subtotal		61.05	\$ <u>72.33</u>	61.05
<u>Costs Not Subject to Standards:</u>				
Utilities		2.14		2.14
Special Services		-		-
Medical Supplies & Oxygen		3.98		3.98
Taxes and Insurance		1.19		1.19
Legal Fees		<u>.11</u>		<u>.11</u>
<b>TOTAL</b>		\$ <u>68.47</u>		68.47
Inflation Factor (3.60%)				2.46
Cost of Capital				8.44
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.40
Cost Incentive				4.30
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.95)
CNA Add-On				.75
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>82.12</u>

**CALHOUN CONVALESCENT CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-CAL-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,206,657	\$ -	\$ -	\$1,206,657
Dietary	324,948	-	-	324,948
Laundry	59,326	-	-	59,326
Housekeeping	83,377	-	-	83,377
Maintenance	47,426	-	-	47,426
Administration & Medical Records	259,103	-	26,766 (2)	232,337
Utilities	68,381	-	-	68,381
Special Services	-	-	-	-
Medical Supplies & Oxygen	127,482	-	-	127,482
Taxes & Insurance	38,191	-	-	38,191
Legal Fees	3,518	-	-	3,518
Cost of Capital	259,921	26,766 (2) 1,239 (5) 112,460 (8)	4,908 (1) 26,766 (3) 1,428 (4) 1,345 (6) 97 (7)	365,842
Subtotal	2,478,330	140,465	61,310	2,557,485

**CALHOUN CONVALESCENT CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-CAL-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	11,590	-	-	11,590
Non-Allowable	68,221	26,766 (3)	1,239 (5)	(15,842)
		1,428 (4)	112,460 (8)	
		1,345 (6)		
	<u>          </u>	<u>97 (7)</u>	<u>          </u>	<u>          </u>
Total Operating Expenses	<u>\$2,558,141</u>	<u>\$170,101</u>	<u>\$175,009</u>	<u>\$2,553,233</u>
TOTAL PATIENT DAYS	<u>32,010</u>	<u>-</u>	<u>-</u>	<u>32,010</u>
TOTAL BEDS	<u>88</u>	COST OF CAPITAL PATIENT DAYS <u>43,340</u>		

**CALHOUN CONVALESCENT CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-CAL-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 31,180	
	Accumulated Depreciation	4,908	
	Depreciation Expense		\$ 4,908
	Other Equity		31,180
	To adjust fixed assets and related depreciation expense State Plan, Attachment 4.19D		
2	Cost of Capital - Interest Expense	26,766	
	Administration		26,766
	To reclassify working capital interest expense to cost of capital HIM-15-1, Section 202.2		
3	Nonallowable	26,766	
	Cost of Capital - Interest Expense		26,766
	To remove facility interest expense from allowable cost to comply with the cost of capital policy effective July 1, 1989 State Plan, Attachment 4.19D		
4	Nonallowable	1,428	
	Cost of Capital - Amortization Expense		1,428
	To disallow loan costs related to intercompany debt HIM-15-1, Section 202.2		
5	Cost of Capital - Amortization Expense	1,239	
	Nonallowable		1,239
	To properly report loan cost related to the 32 bed addition per the COC policy effective July 1, 1989 State Plan, Attachment 4.19D		
6	Nonallowable	1,345	
	Cost of Capital		1,345
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		

**CALHOUN CONVALESCENT CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-CAL-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Cost of Capital	97	97
	To adjust amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
8	Cost of Capital Nonallowable	112,460	112,460
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$206,189</u>	<u>\$206,189</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**CALHOUN CONVALESCENT CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-CAL-J7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	2,998,072	1,090,208	
Improvements Since 1981	34,715	-	
Accumulated Depreciation at 9/30/97	<u>(688,487)</u>	<u>(55,078)</u>	
Deemed Depreciated Value	2,344,300	1,035,130	
Market Rate of Return	<u>0.067</u>	<u>0.067</u>	
Total Annual Return	157,068	69,354	
Return Applicable to Non-Reimbursable Cost Centers	(1,612)	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1,463</u>	<u>-</u>	
Allowable Annual Return	156,919	69,354	
Depreciation Expense	80,153	55,078	
Amortization Expense	2,687	3,979	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,328)</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	237,431	128,411	\$365,842
Total Patient Days (Minimum 97% Occupancy)	<u>32,010</u>	<u>11,330</u>	<u>43,340</u>
Cost of Capital Per Diem	\$ <u>7.42</u>	\$ <u>11.33</u>	\$ <u>8.44</u>

**CALHOUN CONVALESCENT CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-CAL-J7

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 7.79	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$11.33</u>
Reimbursable Cost of Capital Per Diem		\$8.44
Cost of Capital Per Diem		<u>8.44</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>